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TAGS: [FAIR](#) [ECON](#) [CH](#) [TW](#)

SUBJECT: CROSS-STRAIT CHARTER FLIGHTS - LOOKING BACK AND
MOVING FORWARD

REF: A. TAIPEI 43
[B](#). TAIPEI 130
[C](#). TAIPEI 222
[D](#). TAIPEI 280

Classified By: AIT Director Douglas H. Paal, Reason 1.5 d

Summary

[1](#)1. (C) Cross-Strait Lunar New Year charter flights ended February 20. Passenger loads were up from 2003, the last time charter flights were implemented, and airline financial losses were lower. The Taiwan government wants to proceed with cargo charter flights, but will attempt to insist on bilateral negotiations that include Mainland Affairs Council (MAC) and/or Straits Exchange Foundation (SEF). China Airlines (CAL) hopes that the PRC may grant Taiwan airlines overflight permission for flights to Europe and other destinations. The Taiwan-imposed restriction of charter flights to Taiwan businessmen with investment in the Mainland caused some problems. Taiwan will use expanding service to other groups on future cross-Strait flights as an argument for a cross-Strait dialogue that includes more government representation. End summary.

Bigger and Better than 2003

[1](#)2. (U) The Lunar New Year cross-Strait charter flights wrapped up on February 20 with a Hainan Airlines flight from Taipei to Beijing. The flights marked a step forward in cross-Strait relations, and a modest success for Taiwan airlines. According to the Ministry of Transportation and Communications (MOTC), about 10,000 passengers took advantage of 48 charter flights -- compared to 1,300 passengers on eight flights in 2003, the last time Lunar New Year charter flights were implemented. Passenger load factors (PLF) averaged around 50 percent, also up from 2003. China Airlines (CAL) Chairman Chiang Yao-tsung told the media that CAL's PLF for the flights reached 60 percent, and the carrier earned profits of NT\$ 400,000 for a profit margin of about 5.6 percent. Mandarin Airlines, Far Eastern Air Transport (FAT) and TransAsia all claimed that they ended up around the breakeven point. Nevertheless, even CAL's profit must be seen in the context of the opportunity cost of devoting aircraft and personnel to charter flights during Asia's busiest travel time of the year.

[1](#)3. (U) Taiwan's Mainland Affairs Council (MAC) hosted a dinner for Taiwan's six air carriers on February 21 to celebrate the success of the charter flights. The dinner was planned after the PRC announced that it would host a similar event on February 22. The chairmen of CAL, Eva Air, FAT Uni Airlines, and TransAsia had all publicly confirmed that they would attend the event. Mandarin Airlines Michael Lo has also confirmed that he will attend. However, he denied reports that he would discuss charter cargo flights with PRC officials in his capacity as Chairman of the Taipei Airlines Association. According to Lo, he will attend only as President of Mandarin Airlines.

Next Step Cargo Flights

[1](#)4. (U) The Chen administration has made it very clear that it would like to proceed with cross-Strait discussions of direct cargo charter flights. President Chen told the Lunar New Year meeting of Taiwan businessmen with investment in the Mainland hosted by the Mainland Affairs Council and the Straits Exchange Foundation on February 16 that cross-Strait charter cargo flights would be the government's priority for cross-Strait relations. Direct cargo flights would be a huge boon to Taiwan's high-tech manufacturers, who transport a large volume of components to factories that assemble consumer electronic goods in the Mainland. The Taiwan government awaits a clear response from the PRC on the cargo charter flight proposal.

[1](#)5. (C) Cross-Strait cargo charter flights have been on the table before. In 2003, MAC had announced a plan that would permit Taiwan firms to conduct cross-Strait charter flights

if approved by the PRC. MAC Senior Secretary Lee Li-jane told AIT/T the plan did not require any cross-Strait negotiations at the time because it was only open to Taiwan carriers. It was never implemented because the PRC never endorsed it. Lee claims the 2003 plan won't work now because the Taiwan government wants to proceed with bilateral cargo charters that would require some form of negotiation between the two governments before implementation.

16. (C) The Taiwan government will likely insist that cargo charter flights occur only after bilateral discussions that include key government officials. Terms for the Lunar New Year flights were negotiated using the "Hong Kong model" with government officials acting as unofficial advisors to airline business associations. In a key concession by the Taiwan government, MAC and Straits Exchange Foundation (SEF) officials were not included in the discussions -- only civil aviation officials participated. A few observers are now calling this precedent with discussions focused on technical issues and conducted primarily by airline associations with assistance only from civil aviation officials the "Macao model." Taiwan will not readily agree to use this model again to discuss cargo charters or further expansion of passenger charters.

17. (U) CAL's Chiang has publicly proposed that only CAL and EVA be permitted to participate in charter cargo flights because of their large cargo fleets. According to media reports, TAA Chairman Lo endorsed this approach, upsetting his counterparts at FAT and TransAsia. (Note: Lo's Mandarin Airlines is an affiliate of CAL. Lo will step down as TAA Chairman in March. His replacement is likely to be TransAsia Chairman Fan Chih-chiang. End note.) MOTC Vice Minister Oliver Yu has indicated publicly that charter cargo routes will be distributed based on airline capacities.

CAL Wants First Freedom Rights

18. (C) In a lunch with AIT/T Econ Section Chief, CAL President Philip Wei believes that the next step in improved cross-Strait aviation relations could be the PRC granting first freedom rights to Taiwan airlines, allowing them to fly through PRC airspace enroute to Europe and other destinations. Wei doesn't believe that Taiwan will be willing to grant the same rights to PRC carriers, but still had hopes that the PRC would make this concession unilaterally. According to MAC's Lee, the PRC granted overflight rights to some Taiwan airline flights on a case-by-case basis in 2003 during hostilities in Iraq. She believes that a similar case-by-case model could be applied today. However, she foresees difficulty in implementing a permanent, more formal structure. According to Lee, even for overflight rights granted unilaterally by the PRC, Taiwan's Legislative Yuan (LY) would have to authorize Taiwan carriers to take advantage of them.

Passengers Turned Away) Resentment and Leverage

19. (C) The major glitch in charter flight implementation was verification that passengers were qualified to take advantage of the charter flights. As reported ref C, the Taiwan government deliberately restricted passengers to Taiwan businessmen with investment in the Mainland, their families and employees. Reports indicate that because airlines relied on Taiwan business associations in the Mainland to verify passenger status, many who didn't qualify were able to buy tickets and travel, including tourists, journalists, students and even some foreign laborers. Airlines had some flexibility in this area. At AIT/T Econ Chief's lunch with CAL President Philip Wei, one CAL executive offered to facilitate charter travel for an AIT/T officer by temporarily naming him a CAL consultant. Nevertheless, some unqualified travelers were turned away and told to make other arrangements. MAC reports that the largest such group of unqualified travelers numbered 55 individuals. The restrictions generated some public opposition in Taiwan, especially among the families of Taiwan students studying in the PRC. The Taiwan government's determination to enforce the restriction shows its resolve to maintain strict control the liberalization of the cross-Strait aviation policy. It will use expanding service to other groups as further justification for a broader dialogue with the PRC that includes MAC and/or SEF officials in some capacity.

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